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SUBJECT: GUIDANCE: DFI-IAMB CONSULTATIONS, DECEMBER 17

11. (U) USUN should draw from the following building blocks (para 2) during December 17 UNSC consultations on the Development Fund for Iraq (DFI) and the International Advisory and Monitoring Board (IAMB). The U.S. Government objectives in supporting an extension of the DFI/IAMB and in making a Security Council intervention are to: 1) highlight that DFI oversight mechanisms remain inadequate; 2) lay out what the Government of Iraq needs to consider in order to put into place adequate oversight mechanisms; and 3) urge support for a new resolution and 12-month extension.

12. (U) Begin building blocks:

--Since 2003, Iraq has made remarkable progress to address the prior regime's legacy of debt and mismanagement of national resources. It succeeded in reaching a landmark agreement with the Paris Club for an 80% reduction in its Saddam Hussein-era debts, and on these terms has concluded formal debt reduction, cancellation or dismissal agreements with more than 60 countries and the great bulk of its commercial creditors. It seems as if the time is in sight when Iraq will no longer require the exceptional immunities and international oversight arrangements of the Development Fund for Iraq.

--The United States recognizes the significance of the Development Fund for Iraq and the International Advisory and Monitoring Board in supporting the Government of Iraq to ensure that Iraq's resources are being used accountably and transparently to benefit all Iraqi people. Regrettably, the IAMB's audits of DFI accounts have consistently noted a serious lack of internal controls in accounting for and managing the DFI, including the persistent lack of adequate systems for metering Iraqi oil and gas production and exports.

--Given the importance of the DFI accounts for Iraq as the country rebuilds its economy, the United States is very concerned that the Government of Iraq's audit and oversight of its hydrocarbon resources falls short of international standards and the terms of the Iraqi Constitution, which call for independent auditing of federal financial resources and fair and equitable distribution of the country's oil and gas revenues. We thus intend to work with the Government of Iraq over the next year as the government establishes an effective, transparent oversight mechanism that respects Iraq's Constitution while meeting international standards and best practices.

--While the IAMB has expressed confidence in the competence and capabilities of the Committee of Financial Experts (COFE), we question whether COFE has the skills and independence it needs. Although COFE's mandate provides for its independence, its current composition includes officials having ties to the same ministries that it would monitor. Its top official, moreover, is the President of the Board of Supreme Audit, an Iraqi government body which has been ambivalent about making its findings public and bringing in

and abiding by international standards and best practices. Thus, as currently configured, COFE does not yet have the independence and capacity to meet international or Iraqi constitutional standards.

--Accordingly, the United States will strongly urge the Government of Iraq to take the following steps:

1) Establish a single transparent account for collecting and distributing all hydrocarbon export revenues. This account, which would succeed the DFI, would help ensure that the Iraqi government complies with its constitutional and international obligations, including its obligation to make payments to the United Nations Compensation Commission (UNCC). In that regard, we support the call for continued discussion between Iraq and other interested parties, which has already begun under UNCC auspices, on solutions to the issue of outstanding compensation payments.

2) Actively seek to resolve on Paris Club terms any remaining Saddam Hussein-era sovereign debts. The United States also will continue to encourage the Government of Iraq to resolve the remaining Oil-for-Food claims before the end of 2009, so that the program can then be terminated and the remaining unpaid balances can be returned to the DFI. These would be major steps forward in normalizing the Government of Iraq's international financial standing.

3) Implement greater internal controls, especially in relation to oil and gas metering across the Iraqi hydrocarbons sector. The fact that poor internal controls remain a significant concern, and the metering of Iraqi oil and gas production, processing and exports remains inadequate, frustrates serious efforts to accurately determine how much of Iraq's oil and gas revenue is being lost through leakage, theft, or smuggling. Since 2004, this has been one of the IAMB's earliest and most consistent recommendations, and we want to further underscore this concern.

--We have drafted a DFI resolution which has been circulated to the Council and which extends the DFI/IAMB arrangements for a further, and we hope final, 12 months. The resolution requests the Government of Iraq to provide periodic progress reports to the Council on its efforts in the areas I have mentioned beginning in April 2010, and we would welcome representatives from COFE to brief the Council to discuss the establishment of a timeframe and action plan to implement the recommendations of the IAMB. We look forward to working with you all on this resolution.

--Thank you.

IF RAISED

--The United States is encouraged that the Government of Iraq is exercising its sovereignty by engaging in a democratic process to adopt a comprehensive and inclusive national election law which seeks the largest representation of Iraqis at the polls, including those abroad, and ensures the proper distribution of seats among the governorates.

End building blocks.
CLINTON